

FISCAL NOTE

Bill #: HB0128

Title: Generally revise taxation of telecommunications

Primary

Sponsor: Kim Gillan

Status: As introduced

Sponsor signature	Date	Dave Lewis, Budget Director	Date
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Fiscal Summary

	<u>FY2000 Difference</u>	<u>FY2001 Difference</u>
Expenditures:		
General Fund	\$76,923	\$599,179
Revenue:		
General Fund	2,314,070	933,754
State Special Revenue	236,280	60,994
Net Impact on General Fund Balance:	\$2,237,147	\$334,575

<u>Yes</u>	<u>No</u>		<u>Yes</u>	<u>No</u>	
X		Significant Local Gov. Impact	X		Technical Concerns
	X	Included in the Executive Budget	X		Significant Long-Term Impacts

Fiscal Analysis

ASSUMPTIONS:

1. This act is effective January 1, 2000.

Telecommunications Taxes

2. The repeal of the telecommunication license tax will reduce state general fund revenue by \$3,172,000 in FY2000 and \$6,650,000 in FY2001.
3. The tax rate for the proposed telecommunication excise tax is 4%.
4. Montana end-user retail revenue from telecommunications services taxable under the proposed excise tax , after deducting coin revenue from pay phones and pre-paid calling card revenue, is \$670,302,000 for FY2000 and \$702,610,000 for FY2001.
5. Revenue from the proposed telephone excise tax is estimated to be \$13,406,000 in FY2000 and \$28,104,000 in FY2001.

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6. Revenue from the 25% allocation of the excise tax to the general fund is \$3,351,500 in FY2000 and \$7,026,000 in FY2001.
7. Revenue from the 75% allocation to the telecommunications excise tax account is \$10,054,500 in FY2000 and \$21,078,000 in FY2001. These funds are available for subsequent distribution to taxing jurisdictions experiencing property tax reductions.

Reimbursements

8. Reimbursements are quarterly, after the receipt of quarterly excise tax payments.
9. Revenue available for reimbursement to state and local government taxing jurisdictions is distributed based on the relative proportion of telecommunications property taxes received by each jurisdiction, as determined under the reimbursement formulae in the bill. (Actual tax year 1998 distribution of telecommunication property taxes was used for the purposes of this fiscal note.)
10. Because of the delay in the receipt of excise tax payment after the end of the calendar quarter, only one cash reimbursement payment will be made in FY2000 to local governments.
11. Four reimbursement payments will be made to local governments in FY2001. The first payment is equal to the local government portion of the excise tax payment made for the last calendar quarter occurring in FY2000. The following three payments equal the local government portions of the next three excise tax payments, which occur in FY2001.
12. Reimbursement amounts for FY2000 and FY2001 will be distributed proportionate to the loss of property tax revenue.

Property Tax Reduction

13. Class 9 telecommunication property, which is taxed at 12%, is moved to a new class, 13, which is taxed at 6%. Rural telecommunication service provider property is moved from class 7 to class 5, which will reduce the taxable value from 8% to 3% of market value.
14. The reclassification of property will result in a total reduction in taxable value of \$41,232,684 beginning in tax year 2000 (FY2001 impact). Of this total, \$20,303,003 is in counties where 9 mills for state assumption of welfare is levied.
15. Mill levies are 95 mills for the state general fund, 6 mills for the university, and an average mill levy of 342 for local governments.
16. Property tax revenue for the 95 mill levy will be reduced by \$3,917,105 in FY2001.
17. Property tax revenue for the 6 mill university levy will be reduced by \$247,396 in FY2001.
18. Property tax revenue for the 9 mill state assumption of welfare levy will be reduced by \$182,727 in FY2001.
19. Property tax revenue for local governments will be reduced by \$14,101,578 in FY2001.
20. The total reduction in property taxes in FY2001 is estimated to be \$18,448,806. The distribution of the total the total reduction in property taxes is 21.23% to the 95 mill levy, 1.34% to the 6 mill levy, 0.99% to the 9 mill levy, and 76.44% to local governments. These percentages will be used to distribute reimbursement funds from the telecommunication excise tax.
21. Taxable value decrease and non-levy revenue reimbursements will cause school districts to change GTB levies in FY2001. The change in levies to maintain minimum budgets required under section 20-9-308(1)(a), MCA will increase state GTB aid by \$534,506 in FY2001 (See technical note #1).

Administrative Impacts (Department of Revenue)

22. There are an estimated 414 telecommunication service providers.
23. For the telecommunication excise tax the department is required to:

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- collect the tax quarterly and balance previous quarter's tax collection;
 - track multi-state exemptions;
 - allow for different mechanisms of reporting by the telecommunication service provider;
 - develop forms and determination filings;
 - determine who is subject to the tax (i.e. rural cooperatives);
 - provide for credits for taxes paid on worthless accounts;
 - assess deficiency assessments, credit overpayments, calculate penalty and interest, estimate taxes and file warrants for distraint.
24. There will be an increase in the number of companies centrally assessed under this proposal based on the telecommunication service provider definition in section 3.
25. The administration of the replacement revenue is similar to other reimbursement programs the department has managed (1990 Legislature's HB20 and 1995 Legislature's SB417). The department will be required to calculate the reimbursement ratio, then distribute the replacement revenue each calendar quarter starting in March of 2000.
26. The excise tax will be managed on a PC based spreadsheet application.
27. The above requirements will require 2.00 FTE to administer.

FISCAL IMPACT:

	<u>FY2000</u>	<u>FY2001</u>
	<u>Difference</u>	<u>Difference</u>
FTE	2.00	2.00

Expenditures:

Personal Services	\$60,189	\$59,779
Operating Expenses	12,734	\$4,894
Equipment	4,000	0
Local Assistance – School GTB	<u>0</u>	<u>534,506</u>
TOTAL	\$76,923	\$599,179

Funding:

General Fund (01)	\$76,923	\$599,179
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Revenues:

General Fund (01)		
Excise Tax Effects		
Repeal Telephone License Tax	(\$3,172,000)	(\$6,650,000)
New Telephone Excise Tax (25%)	3,351,500	7,026,000
95 Mills (Reimbursement)	2,134,570	4,474,859
Property Tax Reclassification		
95 Mills (Prop. Tax Reduction)	<u>0</u>	<u>(3,917,105)</u>
TOTAL	\$2,314,070	\$933,754

State Special Revenue (02)

Excise Tax Effects (Reimbursement)

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6 Mills University	\$134,730	\$282,445
9 Mills Welfare	101,550	208,672
Property Tax Reclassification		
6 Mills University		(247,396)
9 Mills Welfare	<u>0</u>	<u>(182,727)</u>
TOTAL	\$236,280	\$60,994

Net Impact to Fund Balance (Revenue minus Expenditure):

General Fund (01)	\$2,237,147	\$334,575
State Special Revenue (02)	\$236,280	\$60,994

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

In FY2000, with no property tax effects and one quarter of reimbursements, there will be a net revenue gain to local governments of \$3,841,824. In FY2001 the estimated property tax revenue reduction of \$14,101,578 is offset by the telecommunication excise tax reimbursement amount of \$15,926,847, which results in a net revenue gain of \$1,825,269.

LONG-RANGE IMPACTS:

Impacts for fiscal years 2002 and beyond should reflect the impact in FY2001.

TECHNICAL NOTES:

1. School districts are required to budget at the BASE level under section 20-9-308 (1)(a), MCA. With the reduction in taxable values under this bill provisions of CI-75 will require voter approval to increase tax rates to continue to meet the minimum budget requirement. If voters do not approve the increase the district will be in violation of section 20-9-308, MCA.
2. In section 20 the bill excluded one parentheses in the reimbursement ratio.
3. Language to describe disbursements to taxing jurisdictions does not include a date or exact timeframe in which to make distributions.
4. A companion bill will be needed to place this measure on the ballot if CI-75 is sustained.